

Message Text

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TAGS: BEXP ETEL KS

SUBJECT: MAJOR PROJECT - TELEPHONE CENTRALS FOR KOREA

REF: SEOUL 5189

1. DISCUSSIONS WITH NORTH AND GT&E INDICATE THAT BOTH ARE STILL SEPARATELY PURSUING POSSIBLE ROK APPROVAL OF A JOINT VENTURE WITH A KOREAN PARTNER TO MANUFACTURE TELEPHONE SWITCHING EQUIPMENT FOR ROK DOMESTIC REQUIREMENTS AS WELL AS FOR EXPORT FROM ROK. THEY HAVE INDICATED THAT IN ADDITION TO MOC APPROVAL, EPB, MCI AND BLUE HOUSE FORMAL APPROVAL IS REQUIRED. ASSUMING ITT HAS BEEN FORMALLY APPROVED BY ALL CONCERNED ROK AUTHORITIES IN ITS JOINT VENTURE WITH ORIENTAL PRECISION, YOUR 5189 ALSO INDICATES A
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VISIT TO ITT EUROPEAN PLANTS BY A ROK TECHNICAL TEAM.

THIS MAY MEAN THAT PRODUCTION EQUIPMENT, PARTS TO BE ASSEMBLED IN KOREA AND LICENSING CAN IN THE MAIN BE FROM EUROPEAN SOURCES RATHER THAN US. IN VIEW OF THE ABOVE WE CANNOT AT PRESENT RECOMMEND ITT AS THE CHOSEN U.S. INSTRUMENT. ACCORDINGLY WILL YOU AT YOUR DISCRETION CHECK WITH ROK CONCERNED MINISTRIES AND BLUE HOUSE TO SEE IF ITT HAS BEEN SELECTED TO THE EXCLUSION OF ALL OTHER U.S. FIRMS. YOUR ADVICE ON THIS WILL BE MOST APPRECIATED AND MAY PROVIDE THE BASIS FOR OPENING A CASE.

2. IN YOUR DISCUSSIONS WITH MOC, MCI, EPB AND THE BLUE HOUSE YOUR SHOULD BE AWARE THAT ROK PLANS FOR TELECOM-MUNICATIONS IMPROVEMENT AND EXAPNSION WERE DISCUSSED WITH MR. T.Z. CORLESS OF BDC (BUREAU OF DOMESTIC COMMERCE) DURING HIS MARCH AND OCTOBER 1973 VISITS. APPARENTLY SOME ONE MILLION THREE HUNDRED THOUSAND LINES OF EQUIPMENT ARE CONTEMPLATED OVER THE NEXT TEN YEARS. THIS INITIAL EXPANSION COULD CONSERVATIVELY REQUIRE AN EQUIPMENT COST OF 500 MILLION. KOREA'S PRESENT PRODUCTION CAPABILITY CAN ONLY PROVIDE LESS THAN TWENTY PERCENT, AND THAT IS GOOD, BUT OBSOLESCENT EQUIPMENT, CORLESS ALSO UNDERSTOOD THAT JAPAN HAD ATTEMPTED TO DEVELOP A MASTER PLAN FOR THE ROK NATIONAL TELECOMMUNICATIONS SYSTEM WHICH WAS TIED TO JAPANESE EQUIPMENT.

3. THE MOST IMPORTANT CONSIDERATION, PARTICULARLY IF U.S. FINANCING OR LOAN QUARANTEES ARE INVOLVED IS THE TOTAL ECONOMIC VIABILITY OF THE KOREAN NATIONAL TELECOMMUNICATIONS SYSTEM. DURING CORLESS'S OCTOBER 1973 VISIT, MOC INDICATED ITS MAJOR PROBLEM WAS THE ARTIFI-CIALLY LOW LOCAL CALLING RATE AND NONPAYMENT OF BILLS BY ROK GOVERNMENT OFTICES. AS YOU KNOW, THE EXISTING TELEPHONE SYSTEM REQUIRES EXTENSIVE AUGMENTATION, MODERN-IZATION AND REHABILITATION. SELECTION OF A CENTRAL OFFICE SWITCHING SYSTEM PRODUCER IS ONLY A PARTIAL SOLUTION TO THE OVERALL ROK PROBLEM. ABOVE ALL, ANY NATIONAL PLAN SHOULD NOT BE TIED TO A TELECOMMUNICATIONS EQUIPMENT PRODUCER, EVEN IF THE PLAN IS SUPPOSEDLY PROVIDED AT NO COST. WE HAVE A NUMBER OF U.S. CONSULTING

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FIRMS THAT SPECIALIZE IN NATIONAL COMMUNICATIONS PLANS FOR DEVELOPING NATIONS. IN THEIR PLANNING THEY FULLY UTILIZE EQUIPMENT IN PLACE, COMPATABILITY WITH MODERN EQUIPMENT, AND PROVIDE A NATIONAL PLAN THAT PHASES MODERNIZATION OVER THE MOST ECONOMIC PERIOD. OF MAJOR IMPORTANCE IT THEIR COVERAGE OF ECONOMICS AND MANAGEMENT AS RELATED TO GOVERNMENT OWNED AND MANAGED PT&T'S VS SEMIPUBLIC OWNERSHIP. AN EXAMPLE OF SUCH A PLAN, PREPATED

BY TELECONSULT OF WASHINGTON, D.C. IS FORWARDED FOR YOUR INFORMATION AND AT YOUR DESCRETION DISCUSSION WITH KOREAN OFFICIALS IN THE VARIOUS MINISTRIES OR BLUE HOUSE. THIS PLAN IS NOW BEING IMPLEMENTED BY HONDURAS, CENTRAL AMERICA. TELECONSULT HAS ALSO ENCLOSED A TENTATIVE PROPOSAL FOR KOREA, SHOULD YOU DEEM IT ADVISABLE TO FORWARD SAME. AT ANY RATE THE PROPOSAL CAN HELP INFORM THE POST OF THE FACTORS INVOLVED.

4. ANOTHER POSSIBILITY, AND ONE THAT WOULD BE OF FAIRLY IMMEDIATE BENEFIT TO OUR BALANCE OF PAYMENTS, AND OF THE LOWEST POSSIBLE COST TO THE ROK--AS WELL AS THE FASTEST MEANS OF EPANDING ITS SYSTEM--WOULD BE THE CONSIDERATION OF REHABILITATED EQUIPMENT WITH A GUARANTEED FIFTEEN TO TWENTY YEAR LIFE SPAN, ASSUMING NORMAL MAINTENANCE. THIS EQUIPMENT WOULD BE COMPATIBLE WITH EXISTING EQUIPMENT. SUCH REHABILITATED EQUIPMENT COULD BE AVAILABLE IN A MUCH SHORTER TIME SPAN THAN NEWLY MANUFACTURED EQUIPMENT.

THE AVAILABILITY OF THIS EQUIPMENT IS DUE ALMOST ENTIRELY TO CHANGES IN EQUIPMENT TECHNOLOGY IN THE BELL SYSTEM. AS A RESULT, RELIABLE TELEPHONE SETS, PABX, AND SWITCHING MACHINES, AND SOME TRANSMISSION FACILITIES EQUIPMENT WILL BECOME SURPLUS TO THE NEEDS OF THE BELL SYSTEM IN SUBSTANTIAL QUANTITIES. THERE IS NO U.S. MARKET FOR MOST OF THIS EQUIPMENT AND THIS WILL RESULT IN RECLAMATION OF METALS BY THE SMELTER UNLESS SOLD OVERSEAS. IF THIS POSSIBILITY EVOKES REAL INTEREST--PARTICULARLY IN THE RELATIVE SPEED IN WHICH THE EXISTING SYSTEM CAN BE AUGMENTED AS WELL AS SUBSTANTIALLY LOWER COSTS, PLEASE ADVISE, ATTENTION T.Z. CORLESS, BDC, AND HE CAN MAKE ARRANGEMENTS FOR THE SUPPLIER TO GIVE SOUTH KOREA A PROPOSAL THAT WOULD COVER: COST COMPARISONS, A FUNDA-
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MENTAL PLAN FOR THE EXPANSION OF ROK EQUIRMENTS, AND INTEGRATION OF THE EQUIPMENT INTO THE EXISTING NETWORK.

FYI ONLY: THE BELL SYSTEM WILL GENERATE, OVER THE NEXT TEN YEAR A SURPLUS OF RELIABLE USED EQUIPMENT WHICH AT 1950 PRICES COST AN ESTIMATE ONE BILLION DOLLARS. NO OTHER INTERNATIONAL SOURCE CAN PRODUCE SUCH QUANTITIES OF QUALITY REUSABLE EQUIPMENT. WHILE AT&T HAS NOT YET DECIDED UPON A POLICY OF RESALE OUTSIDE THE U.S. (NO MARKET IN U.S.A.), IF YOU COULD INITIATE A DISCUSSION WITH ROK IT WOULD HELP FIRM AT&T POLICY FOR POSSIBLE WORLD MARKETS INSTEAD OF RECLAMATION. IF DISCUSSIONS MATURE, THE SUPPLIER WOULD BE WESTERN ELECTRIC OR A SEPARATE COMPANY FORMED FOR THE EXPORT AND TRAINING OF RECIPIENT COUNTRIES. CONSIDERING THAT ABOUT THREE

YEARS WOULD BE REQUIRED TO BUILD, EQUIP AND BRING TO FULL PRODUCTION A FACILITY FOR MODERN SWITCHING IN THE ROK, U.S. NEGOTIATIONS UNDERWAY SHOULD NOT BE ADVERSELY AFFECTED. THE MAJOR PROBLEM, AS CORLESS SEES IT, IS THAT KOREA WOULD HAVE TO TEMPORARILY ACCEPT USED EQUIPMENT INSTEAD OF NEW STATE OF THE ART SWITCHING PRODUCTION TO WHICH IT ASPIRES. HOWEVER, THE REAL NEED TO RAPIDLY IMPROVE THE PRESENT PUBLIC AND INDUSTRIAL TELEPHONE SYSTEM AT THE LOWEST POSSIBLE COST COULD BE A MAJOR INFLUENCING FACTOR WITH THE EPB AND BLUE HOUSE. KISSINGER

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